LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: LSA #02-340
STATE AGENCY: Family and Social Services Admin.

DATE PREPARED: Mar 10, 2003
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Digest of Proposed Rule: This proposed rule makes four revisions to the Medicaid case-mix reimbursement methodology for nursing facilities:
(1) It extends the sunset of the rule that removes the profit add-on from the direct care component until July 1, 2006 (children's facilities are exempt);
(2) It extends the date that the historical cost inflation reduction factor applies;
(3) It provides for annually rebasing payment rates; and
(4) It increases the minimum occupancy standard for the direct care, the indirect care, and the administration rate component from 65% to 90%. (The increase is to be phased-in over time until October 1, 2005.)

Governmental Entities: *State Impact:* The fiscal impact to the state is anticipated to be $56.5 M in state savings over the two years of the FY 2004 - FY 2005 biennium. Savings are anticipated in the following amounts associated with the specific rule change:

(1) Remove the profit add-on until July 1, 2006: Total savings of $29.9 M annually, $11.4 M state share.
(2) Extend the date that the historical cost inflation reduction factor applies: Total savings of $29.3 M annually, $11.1 M state share. (This is the application of a 3.3% reduction of the CMS Nursing Home without Capital Market Basket index that is used to inflate costs from the midpoint of the annual financial report for determining the average allowable cost of the median patient day.)
(3) Rebase rates annually: Total cost of $8.6 M annually, $3.3 M state share. (Currently the rule provides for a non-rebasing year, every other year. This rule amendment eliminates the non-rebasing year and provides for rates to be based upon annual financial reports.)
(4) Increases the minimum occupancy standard that is applied to the direct care, indirect care, and administration rate components from 65% to 75% through September 30, 2004. On October 1, 2004, the minimum occupancy standard will increase from 75% to 85% until September 30, 2005; after October 1, 2005, the minimum occupancy standard will be 90%. Total savings are anticipated to be $23.4 M in FFY 2004; $49 M in FFY 2005; and $35 M in FFY 2006. State savings are estimated to be $8.9 M in FFY 2004; $18.6 M in FFY 2005; and $13.3 M in FFY 2006.

Each of the individual changes influences the rate and should not be considered additive.

There are no unfunded mandates placed upon any state agency by this rule.

Local Impact: Local government-owned nursing facilities will be impacted by this proposed change in reimbursement. OMPP estimates that all government-owned nursing facilities will have a rate decrease as a result of the application of the minimum occupancy standard by the time the 90% standard is imposed. This estimate assumes that the facilities would not increase their occupancy through the incremental levels of implementation.

Participation in Medicaid is a voluntary election made by government-owned facilities. There are no unfunded mandates placed upon any local agency by this rule.

Regulated Entities: The impact of this rule, as described above, affects long term care providers, who are regulated entities. However, participation in Medicaid is a voluntary election made by each facility.

Information Sources: Evelyn Murphy, Office of Medicaid Policy and Planning, (317) 233-6467.